

VZCZCXRO7319
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHBK #5253/01 2780256
ZNR UUUUU ZZH
R 050256Z OCT 07
FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC 0016
RUCNASE/ASEAN MEMBER COLLECTIVE
RUCPDOG/USDOC WASHINGTON DC

UNCLAS SECTION 01 OF 02 BANGKOK 005253

SIPDIS

SENSITIVE

SIPDIS

STATE FOR EAP/MLS
STATE PASS USTR
USDOC FOR 4430/EAP/MAC/OKSA

E.O. 12958:N/A
TAGS: [ECON](#) [EINV](#) [ETRD](#) [TH](#)

SUBJECT: FORD TO BOOST INVESTMENT IN THAILAND'S "DETROIT OF THE EAST"

REF: BANGKOK 4753

1. (SBU) Summary: After a year and a half of deliberation and discussions, Ford Motor Company is set to announce on October 9 a USD 843 million investment in passenger car production in Thailand. Ford made the decision after the RTG agreed to conditions for the investment, including a five-year corporate tax exemption and a commitment to establish a training center for automotive workers. Despite a sluggish economy and slowing overall investment, the automotive industry is a bright spot for both new investment and strong export growth. End Summary.

2. (SBU) Ford is planning to announce on October 9 its decision to invest in a new manufacturing line to produce a new "B-car" subcompact. Production will begin in late 2009. Ford estimates that over the lifetime of the project the new investment will amount to approximately USD 843 million, nearly doubling Ford's current investment in Thailand. However, next week's announcement will mention only the immediate investment of somewhere north of USD 500 million. Ford has operated in Thailand in a 50/50 partnership with Mazda Motor Corporation since 1995, producing compact trucks and SUVs primarily for the Southeast Asia market. The new plant will produce subcompacts, 80 percent slated for export primarily for ASEAN markets, Australia, New Zealand and South Africa. No vehicles from the new plant will be exported to North America.

3. (SBU) After 18 months of discussions with the RTG, Ford made its decision after the RTG committed this week to meet two conditions for the investment. On October 1, Thailand's Board of Investment (BOI) announced it would provide a five-year corporate tax exemption for new passenger car manufacturing. BOI set as conditions for the tax break that the manufacturer must invest at least 15 billion baht (USD 440 million) and produce at least 100,000 units annually during the first five years of operation, conditions that appear tailor made to Ford's proposed investment. On top of this, the BOI offered Ford its standard investment promotion package of duty exemptions for imports of capital equipment and double deduction off corporate tax for utility expenses. Final BOI approval is expected in the next three months.

4. (SBU) In addition, the Ministry of Industry and the Thailand Automotive Institute committed on October 2 to sign an MOU with Ford and Mazda the following week to jointly establish an automobile training center to assist with training of new employees, skills upgrades and costs in launching the new plant. RTG support will equal approximately USD 10 million with Ford and Mazda providing another 30 million over the course of two years.

Auto industry thrives in otherwise sluggish economy

15. (SBU) Ford's planned investment comes amid other announcements of new investments by multinational auto and auto parts manufacturers. Despite an overall investment slowdown sparked by political uncertainty and a general economic malaise (reftel), Honda Motors and India-based Tata Motors also recently announced major new investments. On October 1, BOI approved Honda's 6.7 billion baht (USD 200 million) proposal to expand existing facilities and start a new eco-car production line to produce up to 120,000 units per year, doubling Honda's production capacity in Thailand. Tata Motors received investment privileges in July for a 1.3 billion baht (USD 38 million) project to produce 35,000 one-ton pickups, primarily for the Thai market.

16. (SBU) Outside the industrial zone with the largest concentration of auto manufacturing on Thailand's Eastern Seaboard is a sign boasting "The Detroit of the East." General Motors production facilities there are also set to expand over the next five years with new investments that could total \$500 million. GM exports nearly 60 percent of its production, mostly to ASEAN. With the new investment, the percentage of exports is set to expand and may include supplying the EU market. Toyota has recently completed major new investments that have doubled its capacity for small and mid-sized sedans to over 200,000 units annually. In addition, a huge new plant in Chachoengsao just outside Bangkok will make it possible for Toyota to transfer all of its pick-up truck manufacturing from Japan and supply the world from Thailand. As with Toyota, Ford has chosen to make Thailand its hub for pick-up truck manufacturing, supplying 144 countries, other than the United States, from its Thailand hub.

17. (SBU) According to the Federation of Thai Industries, vehicle exports were up over 20 percent through August year-on-year. Over half of auto production in Thailand is exported, a growing

BANGKOK 00005253 002 OF 002

percentage as local sales suffered in the first half of 2007. Although Ford admits the strong local currency is affecting its exports, substantial import content in its manufacturing has helped keep margins from being squeezed too hard.

18. (SBU) Auto industry executives here point to strong and consistent government support over the past few decades as the key to the establishment of Thailand's booming auto industry. Concessionary tariff and tax policies together with good logistics facilities encouraged major auto companies to establish major manufacturing bases in Thailand and an extensive array of suppliers have followed them here. The auto companies also give high marks to the Thai work force, credited for loyalty, a "can do" attitude, and attention to quality.

BOYCE